

MEMORANDUM

August 18, 2006

TO: All Management Agents

FROM: Donna McMillan

SUBJECT: Procedures for Implementing the 2007 Operating Budgets

It is again time to begin budgeting for the coming fiscal year. Budgeting should be done with the general intention of meeting 2007 operating expenses with the 2007 income. The following documents will be posted separately on the MSHDA website for your use:

- Procedures for Implementing the 2007 Operating Budgets
- **Revised** Budget Form #450 template **with autofill fields and variance flags - optional;**
- Utility Allowance Information, including rent schedules, owner certifications and instructions; and
- Identity of Interest Disclosure Form

The following guidelines and procedures should be used in preparing your budget package submission:

BUDGET REVISIONS: Some changes were made to the budget package and its instructions. **The changes are typed in Comic Sans.** As always, please read these budget guidelines carefully.

BUDGET TEMPLATE (MSHDA #450) OPTIONS:

You have two options for submitting the 2007 budget information:

- 1) **Revised Excel Budget Template (MSHDA #450)** - We have prepared a revised, customized Excel budget template (MSHDA #450) for each management agent. The customized template includes a dropdown box listing each of the developments you manage. The Excel template will automatically fill the 2006 Budget and Previous 12-Month Expenses columns - July 2005-August 2006. If you also need August 2005-September information, please contact Lisa Fox at FoxL6@michigan.gov.

Lisa will e-mail the customized templates to each management agent during the week of August 21. If

you have any questions regarding this template, please contact her at the e-mail address listed above.

The template will also:

- Automatically flag any columns where there is a \$2,000 and 20% variance between the proposed 2007 budgeted amounts and the 12-month expenses. Any flagged columns must include current contracts, if applicable, and detailed notes for the 2007 proposed budgeted amount; and
- Automatically populate Lines 16a - Real Estate Taxes and 16b - Property & Liability Insurance.

This Excel template can be uploaded into MITAS. If you do not chose to use upload this template, please e-mail the completed template to Lisa Fox at FoxL6@michigan.gov, so that we can upload the information.

- 2) Hard Copy - If you do not chose to use the Excel template, you may send in a hard copy of the MSHDA #450. You will have to manually calculate if there is a \$2,000 and 20% variance between the proposed 2007 budgeted amounts and the 12-month expenses to determine if you must submit detailed notes.

NOTE: We will continue working with management agents and owners to perfect our automated budget process for the 2008 budgets.

**LINE ITEMS
REQUIRING
DETAILED
EXPLANATIONS:**

Only the following budget line items must include detailed notes, including mathematical computations and supportive documents:

- 1: Gross Rent Potential;
- 2a: Replacement Reserve;
- 2c: DCE Interest;
- 2m: Other, if there is rent from non-ACC'd units or Sec. 236 Interest Reduction subsidy including Sec. 236 Decoupled developments;
- 4a: Management Fees;
- 4b: Premium Management Fees;
- 16a: Real Estate Tax Escrow, if the amount is different from MSHDA's tax analysis;
- 16b: Property & Liability Insurance, if the amount is different from MSHDA's insurance analysis;
- 16c: Replacement Reserve;
- 19: Allowable Distributions;

- ❑ Any line items with a \$2,000 and 20% variance between the 2007 budgeted amounts and the 12-month expenses;
- ❑ Any line item that includes a physical needs item that will be funded from an escrow account; and
- ❑ Any line item that includes Identity of Interest expenditures.

Additionally, the following groups must also provide detailed notes for the following line items:

Section 8 Preservation Passthrough Developments:

- ❑ 2k: Interest Income;
- ❑ 17c: Trustee Bond Fees; and
- ❑ 21: Excess Income Payment

Sec. 236 Decoupled Developments:

- ❑ 2m: Other;
- ❑ 16d: Loan Repayment;
- ❑ 17a: Mortgage Interest; and
- ❑ 17b: Mortgage Principal

EXCESS INCOME:

HUD Notice **H 04-13, "Guidelines for Calculating and Retaining Section 236 Excess Income"** has been extended. HUD approval letters or the management agent's request letter to HUD to retain excess income for fiscal year 2006 must be submitted with the budget package.

**UTILITY
ALLOWANCES/ RENT
SCHEDULES:**

The Microsoft Excel 2000 template designed to calculate utility allowances, prepare owner certifications and rent schedules is posted separately on the MSHDA website for your use.

The "Updated Electric & Gas Rates Through December **2007**" (Exhibit E-6) is included for your information and use.

Again, as a reminder, Section 8 development utility allowance changes are implemented on January 1 except as noted below:

NOTE: Utility Allowance information for Section 8 paid-off developments, other than Section 8 Preservation Pass-Through developments, is due 60 days prior to the anniversary date.

NOTE: The Rent Schedules for the Sec. 236 Decoupled developments with an IRP value will be e-mailed to the applicable management agents separately.

MANAGEMENT

AGREEMENTS:

The Authority's Management Agreements submitted in 2005 automatically renew and do not need to be resubmitted with the budget submission. Changes in the management fee, premium management fee and staff assigned to the development will be approved in the 2007 budget submission.

The budget must list the employees' names, position description, number of hours, hourly rate and total salary, including bonuses. If a position is currently vacant, the budget must note "Vacant".

Identity of Interest

Disclosures:

Beginning this year, MSHDA will log all Identity of Interest Disclosure forms and bids so that the information does not need to be submitted on a yearly basis unless required by MSHDA - or - there is a 20% change between the amounts budgeted in the 2007 budget and subsequent years. The Authority will require new Identity of Interest Disclosure forms and bids every five years (due again in 2012). Identity of Interest expenditures must be identified and detailed in the applicable budget line items.

CNA:

The Authority has commissioned On-Site Insight to perform Capital Needs Assessments (CNA's) on MSHDA developments. If a CNA has been completed by On-Site Insight, the report must be used for budgeting projections.

MSHDA will again send a Replacement Reserve analysis that identifies the minimum required Replacement Reserve contribution for each development during 2007. This information will be sent late in August.

TAX & INSURANCE ANALYSES:

The Tax and Insurance Analyses have been sent under separate cover.
These amounts will automatically populate Lines 16a and 16b of the Budget Form #450 Excel template.

RR NEEDS:

The RR Needs information will be sent under separate cover.

COE POSITIONS:

The COE process will remain the same for 2007 as it was for 2006. However, it is our plan to implement changes to the Management Fee Policy in 2007.

Prior approval is not required to charge acceptable COE positions to the development's operating account. Management agents will now submit a "Summary of Management Agent Central Office Employee Costs Charged to a Development's Operating Account" form in February 2008 that reports the COE employees, description of duties and total amount charged to each development's operating account during 2007. All anticipated COE positions must be included in 2007 Management Agreement and budget. The budget payroll line items must match the information included in the Management Agreement.

NOTE: COE includes any split-site employee whose salary is reimbursed from more than three developments.

DETERMINING RENTS: Consider competing rents in the market area when setting rents at your development. Rents should not be excessively high in relation to comparable housing alternatives nor excessively low. They should ensure the continued stable operation of the development.

To implement rent increases by January 1, Section 236 residents must receive a rent increase notice (EXHIBIT D) **on or prior to September 30**. Rent increase notices must be posted in the common areas and sent to all non-market rate residents. The appropriate notice form is attached and should be posted in the buildings on-site as well as mailed to residents.

Prior to December 1, provide a 30-day notice of a rent increase to all residents in accordance with the terms of the existing lease.

**BUDGET PACKAGE
DUE DATES:**

For all developments whose budget period begins with January 1, the budget package due dates are listed below:

October 1 - Section 236, including Section 236 Decoupled developments, budget packages are due to MSHDA.

November 1 - Section 8, Moderate, 80/20, 70/30, Taxable Bond, 1% Tax-Exempt, TEAM and Neighborhood Preservation Program development budget packages are due to MSHDA.

NOTE: An operating budget for new developments must be submitted in the year after cut-off occurred.

All hard copies of the budget information **MUST** be sent to:

Ms. Kathy Feldpausch
Michigan State Housing Development Authority
735 E. Michigan, 3rd Floor
P.O. Box 30044
Lansing, MI 48909

**BUDGET PACKAGE
REQUIREMENTS:**

The budget form should be typed or completed in ink.
Please do not use pencil to complete the budget form.

Budget packages must include detailed notes and supportive documents as outlined in EXHIBITS A-1, A-2, A-3 and EXHIBIT B.

BUDGET EXHIBITS:

To assist you in preparing your budgets, the following exhibits are attached:

EXHIBIT A-1 - Budget Submission Schedule and Required Attachments--
Section 236 Developments (Including Section 236 Decoupled)

EXHIBIT A-2 - Budget Submission Schedule and Required Attachments--
Section 8 Developments

EXHIBIT A-3 - Budget Submission Schedule and Required Attachments--
Moderate, 80/20, 70/30, Taxable Bond, 1% Tax-Exempt and Neighborhood
Preservation Program Developments

EXHIBIT B - Instructions for Completing Annual Budget Form (MSHDA #450)

EXHIBIT C - Annual Budget Form (MSHDA #450)

EXHIBIT D - Notice to Residents of Intention to Submit a Request to MSHDA
for Approval of an Increase in Maximum Permissible Rents

EXHIBIT E- Revised Utility Allowance Review Process

EXHIBIT E-1, E-1a, E-1b, E-2, E-2a* or E-3 - Owner Utility Certification to
MSHDA (may be signed by management agent if they have Power of Attorney
for the owner)

EXHIBIT E-4 - Utility Allowance Calculation Form – Input Page

EXHIBIT E-5 - Utility Allowance Calculation Form – Output Page

EXHIBIT E-6 - Updated Electric & Gas Rate Information

EXHIBIT F - Identity of Interest Disclosure form and Part 10 of Authority's General Rules. Identity of Interest Disclosure forms must be submitted for management agent companies, if applicable.

EXHIBIT G – Budget Worksheet - HUD 92547-A

EXHIBIT H - Owner Certification of Purchasing Practices and Reasonableness of Expenses

EXHIBIT I-1, I-2, I-3, I-4, I-5, I-6, I-7 or I-8* - Rent Schedule

***NOTE:** This form should be completed for the paid-off developments (except Section 8 Preservation Pass-Through developments) when they submit their utility allowance information since they are not required to submit annual budgets to the Authority.

Due to the complexity of the budget process, MSHDA staff are instructed to return incomplete and/or unacceptable budget packages.

If you have any questions, please contact your assigned Asset Manager (AM)

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SECTION 236 DEVELOPMENTS INCLUDING SECTION 236 DECOUPLED BUDGET SUBMISSION SCHEDULE

Prior to September 30

Send the Notice to Residents of Intention to Submit a Request to MSHDA for Approval of an Increase in Maximum Permissible Rents (EXHIBIT D) to the tenants.

Post the notice (EXHIBIT D) in three conspicuous places.

By October 1

Budget packages due to MSHDA.

NOTE: Do not use Section 236 posting documents for MSHDA moderate units.

**Between September 30 and
October 30 but not earlier
than 30 days from date of
posting to residents**

The assigned AM will review resident comments and consider such when completing the final budget.

Prior to November 1

MSHDA will send a copy of the approved budget and Rent Schedule to Management Agents and HUD. HUD has the right to approve or disapprove the Rent Schedule within 30 days.

Prior to December 1

The Management Agent **MUST** notify residents of the MSHDA approved rent increase for a January 1 implementation date consistent with the resident's lease terms.*

***NOTE: If HUD disapproves the rent increase, the notification to residents must be withdrawn until HUD approval is received.**

January 1

The management agent will implement the approved rent increase.

REQUIRED BUDGET ATTACHMENTS - Section 236 Developments Including Section 236 Decoupled Developments

A complete budget package **MUST** include the following attachments:

- Budget Worksheet, HUD Form 92547-A, unaudited for the period January through July **2006** (EXHIBIT G).
- A copy of your Notice to Tenants of Intention to Submit a Request to MSHDA for Approval of an Increase in Maximum Permissible Rents (EXHIBIT D).

NOTE: Even if the rent does not change, a reduction in utility allowance requires proper posting and submission of EXHIBIT D.

- Owner Certification to MSHDA for Section 236 Developments (EXHIBIT E-1, **E-1a or E-1b**).
NOTE: Owner Certification must be dated 30 days after the Posting Letter date.
- Utility Allowance Calculation Form – Input Page (EXHIBIT E-4)
- Utility Allowance Calculation Form – Output Page (EXHIBIT E-5)
- Copies of all **current** service contracts for the development indicating amounts, **if there is a \$2,000 and 20% variance between the proposed 2007 budget and the 12-month expenses. If the required contracts are not submitted with the budget package or the required contracts are obsolete, the budget package will be disapproved.**
- Letter from utility company confirming the **2007** increase in utility rates, if utilizing a utility company whose rate increase was not identified by MSHDA.
- The MSHDA Budget Form #450 – **8/06** (EXHIBIT C) endorsed by the owner or the management agent, supporting material.
- Proposed Rent Schedule (EXHIBIT I-1, I-2 or **I-3**).
- Identity of Interest Disclosure (EXHIBIT F). Identity of Interest Disclosure forms must be submitted for management agent companies, if applicable.
- Owner Certification of Purchasing Practices and Reasonableness of Expenses (EXHIBIT H).
- A copy of HUD's approval letter or the management agent's request letter to retain excess income for 2007, if applicable.
- Resident comments.
- Copy of the most recent Excess Income Report.
- Evidence of Authority approval of pension plans for on-site staff, if the Authority does not have a record of the approval (see attached list).

- **Detailed** notes, including mathematical computations and supportive documents for each of the following line items:

- ☐ 1: Gross Rent Potential;
- ☐ 2a: Replacement Reserve;
- ☐ 2c: DCE Interest;
- ☐ 2m: Other, if there is rent from non-ACC'd units or Sec. 236 Interest Reduction subsidy including Sec. 236 Decoupled developments;
- ☐ 4a: Management Fees;
- ☐ 4b: Premium Management Fees;
- ☐ 16a: Real Estate Tax Escrow, if the amount is different from MSHDA's tax analysis;
- ☐ 16b: Property & Liability Insurance, if the amount is different from MSHDA's insurance analysis;
- ☐ 16c: Replacement Reserve;
- ☐ 19: Allowable Distributions;
- ☐ Any line items with a \$2,000 and 20% variance between the 2007 budgeted amounts and the 12-month expenses;
- ☐ Any line item that includes a physical needs item that will be funded from an escrow account; and
- ☐ Any line item that includes Identity of Interest expenditures.

Additionally, the following groups must also provide detailed notes for the following line items:

Sec. 236 Decoupled Developments:

- ☐ 2m: Other;
- ☐ 16d: Loan Repayment;
- ☐ 17a: Mortgage Interest; and
- ☐ 17b: Mortgage Principal

- A market analysis is required if:

The year-to-date vacancy at the time of budget preparation exceeds 5%

- or -

the proposed rent increase exceeds 5% of the current rents.

- Letter from owner, if there is a budget deficit. This letter must describe a plan to fund the budget deficit. **If it is the owner's intent to fund a deficit budget by reducing the management fees, the full amount of the management fees should be budgeted in Line Item 4a and the deficit amount should be budgeted in Line Item 2f-Advances with an appropriate explanation.**

SECTION 8 DEVELOPMENTS BUDGET SUBMISSION SCHEDULE

By November 1	Budget packages to due to MSHDA. There are no resident posting or comment requirements.
Between November 1 and November 30	The AM will review and finalize the budget.
Prior to December 1	MSHDA will send a copy of the approved budget to the Management Agent.
30 days prior to implementation	<p>The management agent <u>MUST</u> notify residents of a MSHDA-approved rent increase resulting from a decrease in utilities for a January 1 implementation date consistent with the resident lease terms.</p> <p>NOTE: The management agent should implement utility allowance changes with or without MSHDA approval. MSHDA staff will change utility allowances only if there are errors. It is imperative that the utility allowance information be carefully reviewed before it is submitted to MSHDA.</p> <p>If the utility increase/decrease is disapproved after December 1 and the incorrect rent is charged to the resident, the corrected adjustment must be made on TRACS.</p>
January 1	The Management Agent will implement the approved budget.

REQUIRED BUDGET ATTACHMENTS - Section 8 Developments

A complete budget package **MUST** include the following attachments:

- Copies of all current service contracts for the development indicating amounts, **if there is a \$2,000 and 20% variance between the proposed 2007 budget and the 12-month expenses. If the required contracts are not submitted with the budget package or the required contracts are obsolete, the budget package will be disapproved.**
- Letter from utility company confirming the **2007** increase in utility rates, if utilizing a utility company whose rate increase was not identified by MSHDA.

- The MSHDA Budget Form #450 – **8/06** (EXHIBIT C) endorsed by the owner or the management agent and supporting material.
- Proposed Rent Schedule (EXHIBIT **I-5, I-6 or I-8***). The Rent Schedule includes a column for unit type, i.e. AW-Apartment walk-up, SD-Semi-detached, TH-Townhouse, E5-Elderly highrise, E2&3-Midrise, EFF-Efficiency
- Owner Utility Certification to MSHDA for Section 8 Developments (EXHIBIT E-2 or E-2a*).
- Utility Allowance Calculation Form – Input Page (EXHIBIT E-4).
- Utility Allowance Calculation Form – Output Page (EXHIBIT E-5).
- Identity of Interest Disclosure (EXHIBIT F). Identity of Interest Disclosure forms must be submitted for management agent companies, if applicable
- Evidence of Authority approval of pension plans for on-site staff, if the Authority does not have a record of the approval (see attached list).
- **Detailed** notes, including mathematical computations and supportive documents for each of the following line items:
 - ❑ **1: Gross Rent Potential;**
 - ❑ **2a: Replacement Reserve;**
 - ❑ **2c: DCE Interest;**
 - ❑ **2m: Other, if there is rent from non-ACC'd units or Sec. 236 Interest Reduction subsidy including Sec. 236 Decoupled developments;**
 - ❑ **4a: Management Fees;**
 - ❑ **4b: Premium Management Fees;**
 - ❑ **16a: Real Estate Tax Escrow, if the amount is different from MSHDA's tax analysis;**
 - ❑ **16b: Property & Liability Insurance, if the amount is different from MSHDA's insurance analysis;**
 - ❑ **16c: Replacement Reserve;**
 - ❑ **19: Allowable Distributions;**
 - ❑ **Any line items with a \$2,000 and 20% variance between the proposed 2007 budgeted amounts and the 12-month expenses;**
 - ❑ **Any line item that includes a physical needs item that will be funded from an escrow account; and**
 - ❑ **Any line item that includes Identity of Interest expenditures**

Additionally, the following groups must also provide detailed notes for the following line items:

Section 8 Preservation Passthrough Developments:

- ☐ **2k: Interest Income;**
- ☐ **17c: Trustee Bond Fees; and**
- ☐ **21: Excess Income Payment**

- Letter from owner, if there is a budget deficit. This letter must describe a plan to fund the budget deficit. . **If it is the owner's intent to fund a deficit budget by reducing the management fees, the full amount of the management fees should be budgeted in Line Item 4a and the deficit amount should be budgeted in Line Item 2f-Advances with an appropriate explanation.**

***NOTE:** These forms should be completed for the paid-off developments (except Section 8 Preservation Pass-Through developments) when they submit their utility allowance information since they are not required to submit annual budgets to the Authority.

ALL PROGRAMS EXCEPT SECTION 8 AND SECTION 236 DEVELOPMENTS BUDGET SUBMISSION SCHEDULE

By November 1	Budget packages due to MSHDA. There are no resident posting or comment requirements.
Between November 1 and November 30	The AM will review and finalize the budget.
Prior to December 1	MSHDA will send a copy of the approved Rent Schedule and budget to the Management Agent.
30 days prior to implementation	The Management Agent <u>MUST</u> notify residents of the rent increase in <u>accordance with the lease terms</u> .
January 1	Implement approved budget.

NOTE: Rents for regulated and Low Income Housing Tax Credit units cannot exceed the amounts stipulated in the Regulatory Agreements or Section 42(g)(2)(c) of the Internal Revenue Code of 1986, as amended.

REQUIRED BUDGET ATTACHMENTS

A complete budget package **MUST** include the following attachments:

- Copies of all current service contracts for the development indicating amounts, **if there is a \$2,000 and 20% variance between the proposed 2007 budget and the 12-month expenses. If the required contracts are not submitted with the budget package or the required contracts are obsolete, the budget package will be disapproved.**
- Letter from utility company confirming the **2007** increase in utility rates, if utilizing a utility company whose rate increase was not identified by MSHDA.
- The MSHDA Budget Form #450 – **8/06** (EXHIBIT C) endorsed by the owner or the management agent, supporting material.
- Proposed Rent Schedule (EXHIBIT **I-7**).
- Verifications that budgeted rents do not exceed maximum allowable rents under the program guidelines.
- Owner Certification (EXHIBIT E-3).
- Utility Allowance Calculation Form – Input Page (EXHIBIT E-4).

- Utility Allowance Calculation Form – Output Page (EXHIBIT E-5).
- Identity of Interest Disclosure (EXHIBIT F). Identity of Interest Disclosure forms must be submitted for management agent companies, if applicable.
- Evidence of Authority approval of pension plans for on-site staff, if the Authority does not have a record of the approval (see attached list).
- **Detailed** notes, including mathematical computations and supportive documents for each of the following line items:
 - ☐ **1: Gross Rent Potential;**
 - ☐ **2a: Replacement Reserve;**
 - ☐ **2c: DCE Interest;**
 - ☐ **4a: Management Fees;**
 - ☐ **4b: Premium Management Fees;**
 - ☐ **16a: Real Estate Tax Escrow, if the amount is different from MSHDA's tax analysis;**
 - ☐ **16b: Property & Liability Insurance, if the amount is different from MSHDA's insurance analysis;**
 - ☐ **16c: Replacement Reserve;**
 - ☐ **19: Allowable Distributions;**
 - ☐ **Any line items with a \$2,000 and 20% variance between the 2007 budgeted amounts and the 12-month expenses;**
 - ☐ **Any line item that includes a physical needs item that will be funded from an escrow account; and**
 - ☐ **Any line item that includes Identity of Interest expenditures.**
- A market analysis is required if:
 - The year-to-date vacancy at the time of budget preparation exceeds 5%
 - or -
 - The proposed rent increase exceeds 5% of the current rents.
- Letter from owner, if there is a budget deficit. This letter must describe a plan to fund the budget deficit. . **If it is the owner's intent to fund a deficit budget by reducing the management fees, the full amount of the management fees should be budgeted in Line Item 4a and the deficit amount should be budgeted in Line Item 2f-Advances with an appropriate explanation.**

INSTRUCTIONS FOR COMPLETING MSHDA FORM #450 FOR ALL MSHDA-FINANCED DEVELOPMENTS

These instructions are offered as a guide to your staff for preparing the **2007** Annual Operating Budgets on MSHDA-financed developments. **IT IS VERY IMPORTANT THAT DETAILED NOTES, INCLUDING MATHEMATICAL COMPUTATIONS, AND SUPPORTIVE DOCUMENTS MUST BE INCLUDED FOR EACH LINE ITEM OF THE BUDGET DETAILED IN EXHIBITS I-A, I-B AND I-C. 2007 CONTRACTS MUST BE INCLUDED IF THERE IS A \$2,000 AND 20% VARIANCE BETWEEN THE PROPOSED 2007 BUDGET AMOUNT AND THE 12-MONTH EXPENSE.** Budgets must be prepared by the management agent and submitted to the Authority on MSHDA Form #450 utilizing the instructions outlined below:

COLUMN 1 - 2006 BUDGET: Use the approved **2006** Annual Operating Budget numbers as approved by the Authority.

COLUMN 2 - PREVIOUS 12 MONTHS EXPENDITURES: Calculate expenditures using the most recent 12 months actual expenditures (less prior year payables). Adjust your calculations for unusual expenditures incurred during the previous 12 months or anticipated for the **2007** budget year.

COLUMN 3 - PROPOSED 2007 BUDGET: Estimate the anticipated **2007** income and expenses.

COLUMN 4 - ADJUSTMENTS BY MSHDA - Leave blank. MSHDA staff budget adjustments are recorded in this column.

COLUMN 5 - MSHDA APPROVED BUDGET - Leave blank. MSHDA-approved budget amounts are recorded in this column.

NOTE: Developments processed under the Authority's Threshold Requirements for Preservation of Section 8 Developments must follow the operating budget requirements established at closing.

EXPENDITURES

Management agents may use their discretion to classify and record expenses as either routine maintenance expenses (non-depreciable) or capital expenditures (depreciable). The method of depreciation and rationale for classifications must follow standard accounting principles and practices. **However, once an item is classified as either non-depreciable or depreciable, it must be reported as such. Changing accounting methods and practices within an established fiscal period or periods is not allowed without formal declaration as required by IRS regulations.**

- **Non-depreciable operating and maintenance items must be budgeted in Lines 11 through 15 of the budget.**
- **Depreciable items or capital expenditures must be budgeted in Lines 20 a-f of the budget.**

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- **The projected physical needs of the development including item, quantity, cost and anticipated escrow funding source must be detailed in the specific budget line items.**
- **The cost of an audit used to establish the selling price for preservation of a Section 8 development cannot be budgeted as this is an expense of the seller.**
- **Congregate care service expenditures cannot be budgeted.**

LINE 4a MANAGEMENT FEES - Cannot exceed **\$404** PUPY times the total number of units in the development inclusive of non-ACC'd units. The budget for a particular development may establish a lower rate.

LINE 4b PREMIUM MANAGEMENT FEES - Cannot exceed **\$64** PUPY. The Authority must approve the premium management fee before it can be disbursed. **Approved COE salaries and travel expenses must be included in this line item.** Also include the cost of COE Employer Payroll Taxes, fringe benefits or Worker's Compensation in this line item.

NOTE: The sum of the COE amounts approved in the budget for salaries, Employer Payroll Taxes, fringe benefits, Worker's Compensation and mileage are the estimated amounts that will be paid from the development's operating account.

LINE 5a ADVERTISING -Include costs of development advertising through newspapers, radio, television, exhibits, leaflets, brochures, signs, banners, etc. Advertising costs to fill unit vacancies and staff vacancies are budgeted on this line.

The development's historical vacancy loss, expected vacancy loss during the upcoming year, waiting list depth and market conditions should determine the advertising budget.

LINE 5b MARKETING PAYROLL - Include the gross salaries of staff used exclusively for marketing or commissions paid to outside agents.

LINE 5c OTHER - Includes resident referral and other marketing fees or costs and Rent Comparability Study for determining Annual Adjustment Factor for Section 8 developments.

LINE 6 LEGAL EXPENSE - Include the cost of professional services for the development's operations; i.e. serving notices, bonding, eviction proceedings, real estate tax appeals, etc. Legal expenses incurred in the sale or the proposed sale of the development or the partnership interest cannot be paid from development operations. **Offset the amount of court costs or legal fees expected to be collected from residents.**

NOTE: The cost of the Legal Opinion Letter required for the Annual Certified Audit cannot be included in this line item.

Supportive documents should clearly establish the average number of cases expected during the forthcoming year. Exclude the cost of unusually high expenses associated with nonrecurring lawsuits experienced in the past.

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LINE 7a ADMINISTRATIVE PAYROLL - Include the gross salaries of all full and part-time office staff, including the human services coordinator.

LINE 7b TEMPORARY ADMINISTRATIVE SERVICES - Include the cost of employment agency administrative staff rather than development-paid staff.

LINE 7c EMPLOYEE PENSION PLANS - Include the cost of the employer's contribution for Authority-approved pension plans for on-site staff and the cost of auditing these pension plans. Evidence of Authority approval must be submitted with the budget, if the Authority does not have a record of the approval (see attached list).

LINE 7d EMPLOYER PAYROLL TAXES - Include the employer's portion of FICA, FUTA and Unemployment Agency payments for all on-site employees:

FICA = Gross salary x .0765
FUTA = Gross salary x .008 **(This is a projected figure based on information received from Unemployment Agency and is subject to change).**

SUTA - This percentage is based on information obtained from the Unemployment Agency. Specify percentage applied in budget notes.

Example: \$ 7,000.00 Administrative Salary
 + 12,000.00 Maintenance Salary
 \$19,000.00
 x .0845 FUTA (.008) + employers FICA (.0765)
 \$ 1,605.50 + SUTA = 7d

Also include the taxes paid by the employer on behalf of marketing staff (5b), administrative staff (7a), maintenance staff (11a), janitorial staff (12a), grounds staff (13a) and security staff (15d).

The cost of an unemployment tax audit must be included in this line item.

LINE 7e TAXES OTHER - Include the development's Single Business Tax and any other development-related taxes (except Real Estate Taxes). The Single Business Tax figure is based on the estimated tax return of the development for the budget year.

LINE 7f TELEPHONE - Include local and long distance telephone charges, telephone equipment rental and internet charges. Development-related pager and cellular telephone charges made by on-site staff are eligible expenses.

LINE 7g OFFICE - Include the cost of office supplies, computer maintenance and non-capitalized office equipment and development-specific computer software.

LINE 7h AUDITING - Cannot exceed **\$10,090** for Section 236, Section 8 developments and Moderate programs. (All other MSHDA financed programs are exempt from this limitation.) Any charge in excess of this amount is a cost to the development's owner. Payment out of operating income is a violation of the Management Agreement. Non-profit audits required on some Section 8 Preservation Program developments are included in this line. The total audit expense cannot exceed the Authority's approved audit fee limit.

The cost of the Annual Certified Audit's legal opinion letter must be included in this line item.

LINE 7i CREDIT REPORTS - Include the cost of resident credit reports, home visits and criminal checks. The management agent should evaluate the development's current waiting list and marketing conditions to determine the projected credit report expense.

LINE 7j HUMAN SERVICES PROGRAM - Include the cost of Human Services Programs that directly benefit residents; i.e. holiday dinners, parties, teen activities, cable TV, toddler programs and recreation/entertainment activities.

NOTE: 70/30 developments must budget \$1.00 for every \$3 budgeted for L.D. Payments. These funds must be used to provide new services or training for low income households or provide rental assistance for additional very low income households.

LINE 7k MISCELLANEOUS ADMINISTRATIVE - Include the cost of newsletters, coffee, bank charges, approved seminars or training sessions for on-site employees and charitable contributions. Also include the cost of other items provided to residents not included in human services, Low Income Housing Tax Credit monitoring fees and mileage for on-site staff.

***LINE 8 ELECTRICITY (Development-Paid Utilities & Common Areas)**

ELECTRIC RATE PROJECTED PERCENT INCREASES FOR 2007

	<u>General Service Rate</u>	<u>Customer Service Charge/Month</u>
Consumers Energy Company	.1167/kwh	\$14.00
Detroit Edison	.1130/kwh	\$ 8.81
American Electric Power:		
St. Joseph Service Area (MGS**)	.0993/kwh	\$13.20
Three Rivers Service Area (MGS**)	.0824/kwh	\$13.37
Upper Peninsula Power Co.	.1506/kwh	\$11.00
Upper Peninsula-Iron River	.098/kwh	\$ 9.00
Edison Sault Electric	.0889/kwh	\$ 7.58
Lansing Board of Water & Light	.0758/kwh	\$15.68

***NOTE:** The rates stated are estimates made by MSHDA staff using the best information available and are to be used to estimate utility costs. They do not represent an official statement regarding utility rate increases under consideration by the Public Service Commission.

**** Medium General Service - Demand**

LINE 9 WATER & SEWER - Increase the actual water and sewer costs for the previous 12 months by the estimated rate increase provided by the local water department.

***LINE 10 FUEL (Development-Paid Utilities & Common Areas)**

GAS RATE PROJECTED PERCENT INCREASES FOR 2007

COMMERCIAL

	<u>Commodity</u>	<u>Charge/Month</u>
Consumers Energy Company	1.0077/CCF	\$7.50
Michigan Consolidated Gas	1.0201/CCF	\$ 20.00
SEMCO Energy Gas (excluding Battle Creek)	1.0897/CCF	\$ 9.50
SEMCO-Battle Creek	1.1429/CCF	\$ 18.00
WPS Michigan-Michigan Gas Utilities Corp.	1.1591/CCF	\$ 20.00
Citizens Gas Company	1.222/CCF	\$ 15.00

Utility costs should take into account whether energy conservation measures will be undertaken to reduce utility expense. If irrigation systems are planned for next year, water costs will no doubt need to be increased.

***NOTE:** The rates stated are estimates made by MSHDA staff using the best information available and are to be used to estimate utility costs. They do not represent an official statement regarding utility rate increases under consideration by the Public Service Commission.

LINE 11a MAINTENANCE PAYROLL - Include the gross salary of full and part-time maintenance staff; i.e. pool attendants and others performing maintenance-related work.

LINE 11b TEMPORARY MAINTENANCE/JANITORIAL SERVICES - Include cost of employment agency maintenance/janitorial staff rather than development-paid staff.

LINE 12a JANITORIAL PAYROLL - Include the gross salary of full and part-time janitorial staff who clean unit and common areas.

LINE 12b JANITORIAL SUPPLIES - Include the cost of supplies for janitorial maintenance; i.e. detergents, cleaning compounds, disinfectants, brooms, mops, toilet paper, light bulbs, etc.

LINE 13a GROUNDS MAINTENANCE PAYROLL - Include the gross salary of full and part-time grounds staff.

LINE 13b TEMPORARY GROUNDS SERVICES - Include the cost of employment agency contractual grounds staff rather than development-paid staff.

LINE 13c SNOW REMOVAL - Include the cost of snow removal contracts and/or supplies and non-capitalized equipment for removal of snow and ice.

LINE 13d LAWN MAINTENANCE - Include the cost of lawn care contracts and/or supplies for on-site lawn maintenance; i.e. trees, fertilizer, weed killers, shrub and lawn trimming and all other non-capitalized grounds maintenance items.

LINE 13e PARKING LOT/CONCRETE REPAIRS - Include the cost of routine maintenance and upkeep of the parking lot, sidewalks, concrete; i.e. contracted cleaning, sealing/stripping, etc.

NOTE: Budget significant asphalt repairs if the market can support a rent increase to pay for such repairs. However, major budgeted items such as asphalt repairs and exterior painting **MUST** be escrowed with the Authority and shown on LINE 16e OTHER.

LINE 14a PAINTING UNITS - Include the cost of unit turnover and cycle contracted painting, non-capitalized wall papering, painting supplies, wallpaper and paint removing material, etc.

LINE 14b CLEANING UNITS - Include the cost of contractual vacated unit cleaning (not janitorial staff).

LINE 14c HEATING AND AIR CONDITIONING - Include unit or common area boiler inspections costs and non-capitalized replacements and repairs or service contracts for heating and air conditioning equipment.

LINE 14d PLUMBING - Include unit or common area costs for maintenance contracts for plumbing, routine plumbing maintenance supplies, non-capitalized replacements or repairs and any scheduled payments for calling in a plumber.

LINE 14e ELECTRICAL - Include unit or common area costs for maintenance contracts for electrical repairs, non-capitalized interior lighting replacements or repairs, routine electrical maintenance supplies, and any scheduled payments for calling in an electrician.

LINE 14f POOL MAINTENANCE - Include the cost of maintenance contracts for pool repairs, non-capitalized routine pool maintenance equipment and supplies.

LINE 14g ELEVATOR - Include the cost of maintenance contracts for elevator repairs and non-capitalized routine elevator maintenance supplies.

LINE 14h EXTERIOR CYCLE PAINTING/WATERPROOFING - Include anticipated non-capitalized exterior cycle painting and waterproofing costs for this budget year.

Exterior cycle painting should take place approximately once every five years. Therefore, 20% of the estimated cost should be escrowed each year with the Authority, and shown on LINE 16e. This escrow will ensure that funds generated by the increased rents are used for their intended purpose.

LINE 14i COMMON AREA COSTS - Include non-capitalized common area repairs, painting, renovation, cleaning or replacement costs.

LINE 14j OTHER - Include non-capitalized unit costs; i.e. doors, floor coverings, glass and screens, parts or repairs made to drywall, countertops, appliances, sinks, tubs, toilets; maintenance supplies, etc. and any other unit contractual costs not specifically identified elsewhere. **Offset the amount of resident damages expected to be collected from residents.**

LINE 15a VEHICLE & EQUIPMENT OPERATING EXPENSE - Include vehicle and equipment operating expenses such as permits, rentals, licenses, gasoline, oil, lubricants, and upkeep of vehicles and equipment.

LINE 15b EXTERMINATING - Include the cost of exterminating contracts and, when applicable, supplies and equipment used by on-site staff.

LINE 15c RUBBISH REMOVAL - Include the contract amount for all rubbish removal.

LINE 15d SECURITY PAYROLL - Include the cost of a contracted security service or the gross salaries of security staff.

LINE 15e OTHER - Include the cost of non-capitalized security-related items; i.e. fire extinguishers, smoke detectors and monitoring charges. Also include uniforms; city inspection fees and permits; miscellaneous operating expenses; non-capitalized exterior costs and Comprehensive Needs Assessment (CNA).

NOTE: All expenses associated with the development's MSHDA security loan must be identified in the appropriate budget line item(s).

LINE 16a REAL ESTATE TAX ESCROW - You **MUST** use the “New Bill Forecast” amount on the MSHDA tax analysis unless you successfully appealed your taxes or obtained a tax abatement. Submit documentation from the tax assessor confirming the new amount with the budget package.

LINE 16b PROPERTY & LIABILITY INSURANCE - You **MUST** use the “New Bill Forecast” amount on the MSHDA insurance analysis unless “shopping” insurance companies reduces the cost. Submit documentation of the new premium with the budget package. Property & Liability insurance premiums that are paid directly from the development’s operating account must be included in this line item.

LINE 16c REPLACEMENT RESERVE – Replacement Reserve funding must be budgeted according to the CNA completed by On-Site Insight, if applicable. At a minimum, multiply the Gross Rent Potential (including rent contributions and subsidies) for the previous budget year by the Replacement Reserve factor carried out four decimal places.

- **If a CNA-Plan 1 has been completed, budget the amount shown as “Required Annual Contributions”.** If a CNA-Plan 2 has been completed, the amount budgeted will be the minimum of the “Required Annual Contributions” and up to the amount of the Annual RR Needs information sent to you under separate cover.
- **Section 236 developments approved to retain excess income to increase Replacement Reserve deposits must budget the amount in this line item.**

LINE 16d LOAN REPAYMENT - Include repayment of loans from all reserve accounts, repayable energy loans, owner advances, second mortgage payments, Section 236 Decoupled second mortgage principal, etc.

NOTE: Resale proceeds to repay the DCE Interest, DCE Principal or Replacement Reserve must be budgeted in this line item.

LINE 16e OTHER - Include the amount of payment for special MSHDA-held reserve accounts; i.e. exterior painting/staining, asphalt, etc.; and repayable subsidy payments.

LINE 17a MORTGAGE INTEREST - Multiply the amount on the Monthly Statement of Activity by 12. Section 236 Decoupled mortgage interest on first and second mortgages. Section 236 developments should use the amortization schedule.

LINE 17b MORTGAGE PRINCIPAL - Multiply the amount on the Monthly Statement of Activity by 12. Section 236 Decoupled mortgage principal on first mortgage only. Section 236 developments should use the amortization schedule.

LINE 17c TRUSTEE BOND FEES - Include Section 8 Preservation Pass Through Program bond trustee fees.

LINE 18a EMPLOYEE HEALTH BENEFITS - Include the development's contribution for staff hospitalization, dental and vision insurance; flexible spending accounts, etc.

LINE 18b WORKER'S COMPENSATION - Include Worker's Disability Compensation Insurance and the cost of the Worker's Compensation audit. The cost of the worker's compensation is determined by multiplying the percentage cost of worker's compensation (supplied by The Unemployment Agency) by the gross salary of each employee or employee group. This percentage varies depending on the job classification of the employee.

LINE 18c OTHER - Include vehicle and equipment insurance, employee or resident discrimination insurance, fidelity bond coverage where allowed under the Authority's fidelity bond policy and any other Authority-approved insurance costs not currently being escrowed.

LINE 19 ALLOWABLE DISTRIBUTIONS - Include L. D. Payments and Pass Through Program non-profit distributions pursuant to the Regulatory Agreement.

The budget can show \$-0- L. D. Payment if:

- Rents are already prohibitively high for the market;
- Development is owned by a non-profit; or
- The for-profit does not intend to pay an L. D. payment.

Do not budget L.D. Payments when Small Size/Security loans are budgeted. However, L.D. Payments may be approved if surplus funds beyond loan disbursements are realized at year end.

Most Section 236 properties and some Section 8 properties have limitations on the amount of the annual L.D. Payment that can be budgeted. Where a limitation exists and the owner budgets the full annual L.D. Payment, they **must** budget DCE Interest to cover the difference.

We encourage agent/owners to operate the development financially independent of DCE by using current year's rents to support the current year's expenses. However, the agent may budget the full DCE interest income to keep rents low in poor rental markets or to avoid vacancies.

The 70/30 Program requires that the mortgagor expend \$1.00 of development income to provide new services, training or rental assistance for very low income households for every \$3.00 of the approved L.D. Payment.

Do not budget more than one year's annual L. D. amount.

LINE 20a LAND IMPROVEMENTS - Include capitalized improvements directly related to or added to the land; i.e. sidewalks, roads, fences, landscaping shrubs, trees, lawn sprinkler systems, playground equipment, etc.

LINE 20b BUILDING & COMPONENTS - Include capitalized major structural repairs or additions; i.e. decks, awnings, siding, roofs, doors, windows, storage sheds, lighting systems, heating/cooling systems, security systems and equipment, etc. **NOTE: The items listed above must receive approval from MSHDA before work commences.**

LINE 20c MAINTENANCE EQUIPMENT - Include capitalized items; i.e. trucks, snow removal equipment, lawn mowers, power tools, etc.

LINE 20d OFFICE EQUIPMENT - Include capitalized items; i.e. desks, files, computers, development-specific computer software, typewriters, copiers, calculators, communication system equipment, etc.

LINE 20e FURNITURE & FIXTURES - Include capitalized non-structural components of a building; i.e. appliances, floor covering, tubs, sinks, toilets, air conditioning units, water heaters, window treatments, common area furniture and pictures, etc.

LINE 20f OTHER - Include capitalized items not reflected in the above categories; i.e. vans, etc.

LINE 21 EXCESS INCOME PAYMENT (Section 236 developments only) - Include the same amount shown on LINE 2(L), if the owner did not request or receive HUD approval to retain excess income. **If the owner has received HUD approval to retain excess income, record the expenses in the appropriate expense line item(s).**

NOTE: Include Section 8 Preservation Pass Through Program Regulatory Fees for those developments.

LINE 22 TOTAL EXPENDITURES - Add LINES 4a through 21.

LINE 23 INCOME MINUS EXPENDITURES - Subtract LINE 22 from LINE 3.

NOTE: *If the market will not bear rent increases sufficient to cover all capital or other expenditures, a deficit budget may result. Submit a plan signed by the owner to fund this deficit. The plan may include development reserves and/or owner's contributions.*

INCOME (ALL PROGRAMS EXCEPT SECTION 8)

Once the total expense is determined, the income necessary to offset expenses can be calculated. Several questions should be considered in determining the rents:

1. Can the rental market absorb a rental increase? How much?
2. Will the vacancy loss increase or decrease? What is the past trend?
3. What is the income level of people on the waiting list?
4. Have the rents historically been kept substantially lower than comparable housing? Why, should the trend continue?
5. What is the current financial condition of the development?
6. Where would you like the development to be financially at the end of the budget year?
7. Have you budgeted long-term escrows such as painting reserves?
8. Have you budgeted repairs as required by the MSHDA Annual Physical Inspection and/or the CNA?
9. Can the development rely on reserves such as DCE Principal, Interest, and Replacement Reserves?
10. Have you adequately informed the owner and sought their input on the tough decisions?

LINE 1 GROSS RENT POTENTIAL

SECTION 236 RENT POTENTIAL INCLUDING SECTION 236 DECOUPLED DEVELOPMENTS

Multiply the proposed **2007** basic rent of each unit times the number of units times 12 months to determine annual gross rent. **Also include moderate unit rents in annual rent potential.**

The agent must provide detailed calculations and supportive documentation. Failure to clearly show how rent potential is derived constitutes an unacceptable budget package.

Market Rate Rents (not to be confused with moderate rate rents) must be calculated as follows:

(New basic rent x Total number of each unit type x 12)
+ The annual interest reduction amount _____ = Market rent ratio*
divided by total annual - 236 basic rent potential

*Carry the market rent ratio calculation out four places past the decimal (.0000). Then multiply the market rent ratio by each basic rent to establish the market rent for each unit. **(Round up at 50¢ and down at 49¢).**

NOTE: Do not use the market rate rents when calculating gross rent potential. Only basic rent is used.

Instructions for Completing Budget Form #450

Page 11

SECTION 8 RENT POTENTIAL

Multiply the current contract rent, times the number of units, times 12 months to determine annual rent potential. Include moderate unit rents in the annual rent potential, if applicable.

NOTE: Section 8 developments often have units set aside which are not included in the ACC contract. Do not include these units in the rent potential calculation.

RENT POTENTIAL FOR ALL PROGRAMS EXCEPT SECTION 236 AND SECTION 8

Multiply the proposed **2007** rents, times the number of units, times 12 months to determine annual rent potential. **Reduce this amount for rent increases that occur after January 1.** Do not include subsidy grants that support the **operation of the development.** **Rent revenue loss due to existing lease rent restrictions should be adjusted for in this line item.**

NOTE: Low Income Housing Tax Credits (LIHTC) developments have a rent restriction formula and cannot charge more than the MSHDA Program or the LIHTC allowable rent.

LINE 1a VACANCY LOSS

Project vacancy rates based on the previous 6 months and adjust for any projected increase or decrease during **2007**.

LINE 1b NON-RENTAL UNIT

NON-RENTAL UNIT FOR ALL PROGRAMS EXCEPT SECTION 8

Multiply the number of non-rental units, times the rental rate, times 12. Refer to the mortgage commitment budget for the allocation of non-rental units.

SECTION 8 NON-RENTAL UNIT

Multiply the rents for the non-rental units included in the Section 8 contract by the rental rate for the applicable unit type, times 12. **Units not included in the ACC contract are not considered non-rental units.**

LINE 1c BAD DEBT/FORMER RESIDENTS - Calculate based on the previous 12 months and adjust for any significant projected increase or decrease during **2007**.

LINE 1d MARKETING RENT CONCESSIONS - Calculate based on the previous 12 months and adjust for any significant projected increase or decrease during **2007**. Any adjustments from the previous 12 months marketing concessions must be supported with detailed documentation.

NOTE: Do not include rent revenue loss due to existing lease rent restrictions. Rent revenue loss due to existing lease rent restrictions should be adjusted for in Line Item 1.

NOTE: Section 8 developments cannot budget marketing rent concessions. Section 236 development marketing rent concessions must be approved by HUD.

Instructions for Completing Budget Form #450

LINE 1e NET CHANGE IN RECEIVABLES - Leave blank.

LINE 1f NET CHANGE IN UNEARNED RENTAL INCOME - Leave blank.

NET RENT COLLECTED - Subtract Lines 1a through 1d from Gross Rent Potential.

LINE 2 OTHER INCOME

This budget package allows budgeting of escrow reserves. Assess the projected physical needs of the development to determine the projected needs for the next 12 months. This projection should take into consideration the latest annual physical inspection, CNA and the age and life expectancy of the development's buildings and components. Based on this assessment, determine which funding source to use. Then budget the appropriate escrow based on your determination. **Please be advised, however, that budget approval does not represent pre-approval of the use of escrow funds.**

Do not budget income from congregate care services as Other Income.

LINE 2a REPLACEMENT RESERVE – If a CNA has been completed by On-Site Insight, it must be used as a guide to project Replacement Reserve needs for this budget year. **All items listed in the CNA can be budgeted from Replacement Reserve, unless the CNA indicates the item should be paid from operations.** If a CNA has not been completed, include the estimated Replacement Reserve funds that will be disbursed during the year based on the list of projected physical needs of the development.

LINE 2b DCE PRINCIPAL - Include the estimated DCE Principal funds that will be disbursed during the year based on the list of projected physical needs of the development.

LINE 2c DCE INTEREST - DCE interest must be budgeted (if required) to offset one-half of a full 6, 7 or 8% L. D. Payment or to offset a deficit budget. The interest rate projection for **2007** is **6.00%**.

Include the estimated DCE Interest funds that will be disbursed during the year based on the list of projected physical needs of the development.

LINE 2d OPERATING RESERVE CASH - Include the estimated Operating Reserve Cash Escrow funds that will be disbursed during the year based on the list of projected physical needs of the development.

LINE 2e MISCELLANEOUS SPECIAL ESCROWS - Include all funds received from special MSHDA-held reserve accounts; i.e. exterior painting/staining, asphalt repairs, resale repair escrow, etc.

LINE 2f ADVANCES - Include any money advanced to the development (generally from owners) to fund operating deficits or to support operating needs.

LINE 2g LATE CHARGES - Multiply the late charge times the anticipated number of occurrences.

LINE 2h LAUNDRY - Compute this income based on last year's actual income plus or minus any anticipated changes in the amount charged for laundry usage.

LINE 2i COMMERCIAL INCOME - Include income derived from the rental of commercial space covered by a master lease.

LINE 2j SUBSIDIES/GRANTS - Include subsidy or grant funds anticipated for the year; i.e. Small Size Loans, Security Loans HODAG or subsidy grants that support the operation of the development.

LINE 2k INTEREST INCOME - Include income derived from interest earned on savings deposits, investment certificates, security deposits (where applicable) and trustee-held escrow accounts (including Section 8 Preservation Pass-Through developments).

NOTE: Do not include interest earned on MSHDA-held reserves.

LINE 2l EXCESS RENTAL INCOME - Obtain this figure by multiplying the surcharge amount found on the most recent Excess Income Report by 12 (applicable to Section 236 developments only). Record the amount of excess income approved by HUD to be retained by the owner for limited purposes.

LINE 2m OTHER - Include miscellaneous income; i.e. cable, club house rental, carports, air conditioner unit rentals, non-refundable pet or other fees, application fees, insurance checks, rent from non-ACC'd units, NSF fees, rent from telecommunications tenants, Section 236 Interest Reduction subsidy (including Section 236 Decoupled developments), human services programs and sales proceeds.

LINE 3 TOTAL INCOME - Add Net Rent Collected plus Total Other Income.

**LIST OF MANAGEMENT AGENTS WITH MSHDA-APPROVED
PENSION PLANS
August 2006**

AIMCO
Altman Management
Amurcon Management
Associated Management
Avon Hills Consumer Housing Cooperative
Central Michigan Non-Profit Housing
Centrum Management
Cremco
First Housing
Heritage Property Management
Huntington Management
Independent Management Services
Keystone Property Management
Lockwood Property Management
Lord's Management Group
Management Resources Development
Management Systems
Medallion Management, Inc.
Michigan Capital Management
Midwest Management Company
PM Group Management
Premier Property Management
Presbyterian Villages of Michigan
Professional Property Management Company
Professional Property Services
Republic Management Corporation
TPM, Inc.
The Shoreline Corporation
Wingate Management Corporation - Boston
Wingate Management Corporation - Southfield

Insert Budget, form 450, Exhibit C

EXHIBIT D

Sample: Copies of a completed version should be posted in three places.

**NOTICE TO RESIDENTS OF INTENTION TO SUBMIT
A REQUEST TO MSHDA FOR APPROVAL OF AN
INCREASE IN MAXIMUM PERMISSIBLE RENTS**

Date of Notice (Prior to September 30)

Take notice that on [date] we plan to submit a request for approval of an increase in the maximum permissible rents for [name of apartment complex] to the Michigan State Housing Development Authority [MSHDA]. The proposed increase is needed for the following reasons:

- 1.
- 2.
- 3.

The rent increases for which we have requested approval are:

	Present Rent		Proposed Increase		Proposed Rent		Present Utility Allowance	Proposed Utility Allowance
	Basic \$	Market \$	Basic \$	Market \$	Basic \$	Market \$	\$	\$
Bedrooms								

A copy of the materials that we are submitting to MSHDA in support of our request will be available during normal business hours at [address] for a period of 30 days from the date of service of this notice for inspection and copying by residents of [name of apartment complex] and, if the residents wish, by legal or other representatives acting for them individually or as a group.

During a period of 30 days from the date of service of this notice, residents of [name of apartment complex] may submit written comments on the proposed rent increase to us at [address]. Resident representatives may assist tenants in preparing those comments. If, at MSHDA's request or otherwise, we make any material change during the comment period in the materials available for inspection and copying, we will notify the residents of the change or changes, and the residents will have a period of 15 days from the date of service of this additional notice (or the remainder of any applicable comment period, if longer) in which to inspect and copy the materials as changed and to submit comments on the proposed rent increase. These comments will be transmitted to MSHDA, along with our evaluation of them and our request for the increase. You may also send a copy of your comments directly to MSHDA at the following address: Michigan State Housing Development Authority [address of MSHDA office in Lansing or Detroit], Attention: [Assigned AM].

MSHDA will approve, adjust upward or downward, or disapprove the proposed rent increase upon reviewing the request and comments. When MSHDA advises us in writing of its decision on our request, you will be notified. If the request is approved, any allowable increase will be put into effect only after a period of at least 30 days from the date you are served with that notice and in accordance with the terms of existing leases.

MEMORANDUM

August 18, 2006

TO: All Management Agents
FROM: Donna McMillan
SUBJECT: Revised Utility Allowance Review Process

The Office of Asset Management has revised the process used to review resident-paid utility allowance changes. **These changes are typed in Comic Sans.**

2007 Requirements - Utility allowance information must be submitted with the development's yearly budget submission. You must begin your utility allowance process in time to submit the information with the budget submission. **The Utility Allowance Calculation Form – Input Page, Utility Allowance Calculation Form – Output Page and Owner Certifications are now on a Microsoft Excel 2000 template program. Use the attached instructions to enter the utility allowance and owner certification information.**

- **Section 8 Developments** - Section 8 development utility allowances are implemented on **January 1. The management agent should implement utility allowance changes with or without MSHDA approval. MSHDA staff will change utility allowances only if there are errors. It is imperative that the utility allowance information be carefully reviewed before it is submitted to MSHDA.**
- **Budget Requirements** - An owner certification, the Utility Allowance Calculation Form – Input Page and Utility Allowance Calculation Form – Output Page must be submitted with each budget submission. These documents must be prepared using the instructions provided.

Agent/Owner Responsibilities - The agent/owner must continue to annually collect and analyze a 25% sampling of gas and/or electric consumption data.

Utility companies are required to provide actual consumption data at no charge to any customer who requests the information. You should have residents sign release forms permitting the utility companies to release the consumption data to you for the **most recent twelve-month period**. These forms can be kept on file for future years. An example of this form is attached for your

Revised Utility Allowance Reporting System
August 18, 2006

information.

Utility Allowance Information by Program Type - The following information describes the utility allowance requirements by housing program for the year 2007:

SECTION 236 DEVELOPMENTS INCLUDING SEC. 236 DECOUPLED DEVELOPMENTS:

- Implement utility allowance changes on January 1st.
- Submit the following items with all budget submissions:
 1. Owner Certification to MSHDA for Section 236 Developments (EXHIBIT E-1, **E-1a or E-1b**) to support utility changes; and
 2. Utility Allowance Calculation Form – Input Page (EXHIBIT E-4).
 3. Utility Allowance Calculation Form – Output Page (EXHIBIT E-5)
- Retain the 25% sampling of gas and/or electric consumption data from the utility companies at the development for Asset Manager (AM) review.

If the utility allowances resulting from the sampling increase or decrease less than 10% of the current utility allowance - Use the utility allowance currently in effect.

If the utility allowances resulting from the sampling increase 10% or more over the current utility allowance, the utility allowances must be revised. The AM will notify the Agent/Owner of the approved utility allowances in the budget approval letter.

If the utility allowances resulting from the sampling decrease by 10% or more for Section 236 residents paying over basic rent or subsidized under RAP or Rent Supplement, the utility allowances must be revised and the residents must be given a 30-day advance written notice of the rent increase. The AM will notify the Agent/Owner of the approved utility allowances in the budget approval letter.

**Revised Utility Allowance Reporting System
August 18, 2006**

SECTION 8 DEVELOPMENTS (except paid-off developments other than Section 8 Preservation Pass-Through developments):

- Implement utility allowance changes on **January 1st**.
- Submit the following items with the budget submission:
 1. Owner Certification to MSHDA for Section 8 Developments (EXHIBIT E-2 or E2a*) to support utility changes; and
 2. Utility Allowance Calculation Form – Input Page (EXHIBIT E-4).
 3. Utility Allowance Calculation Form – Output Page (EXHIBIT E-5).
- Retain the 25% sampling of gas and/or electric consumption data from the utility companies at the development for Asset Manager (AM) review.

If the utility allowances resulting from the sampling increase or decrease less than 10% of the current utility allowance - Use the utility allowance currently in effect.

If the utility allowances resulting from the sampling increase 10% or more over the current utility allowance, the utility allowances must be revised. The AM will notify the Agent/Owner of the approved utility allowances in the budget approval letter.

If the utility allowances resulting from the sampling decrease by 10% or more, the utility allowances must be revised, and the residents must be given a 30-day advance written notice of the rent increase. The AM will notify the Agent/Owner of the approved utility allowances in the budget approval letter.

*** Applicable Section 8 paid-off developments must submit this information to the Authority 60 days prior to their anniversary date.**

Revised Utility Allowance Reporting System
August 18, 2006

MSHDA PROGRAMS

(Includes 80/20, 70/30, Taxable Bond, TEAM, 1% Tax- Exempt, and NPP Developments)

- Implement utility allowance changes on January 1st or when the new rents are implemented.
- Submit the following items with the budget submission:
 1. Owner Certification to MSHDA for Non-Section 236 & Section 8 Developments (EXHIBIT E-3) to support utility changes; and
 2. Utility Allowance Calculation Form – Input Page (EXHIBIT E-4).
 3. Utility Allowance Calculation Form – Output Page (EXHIBIT E-5).
- Retain the 25% sampling of gas and/or electric consumption data from the utility companies at the development for Asset Manager (AM) review.

If the utility allowance resulting from the sampling increases or decreases by any amount, the utility allowances must be revised and the residents must be given a 30-day advance written notice of any rent increase. The AM will notify the Agent/Owner of the approved utility allowances in the budget approval letter.

Revised Utility Allowance Reporting System
August 18, 2006

Governing Regulations - Specific regulations governing utility rate adjustments are identified below:

- Section 8: CFR 880.610
- Section 236: CFR 245.416
- MSHDA Programs: IRS Notice 89-6 (applicable to LIHTC)

The following exhibits are attached for your use:

Exhibit E-1 Owner Certification to MSHDA for Section 236 Developments

Exhibit E-1a Owner Certification to MSHDA for Section 236 Decoupled Developments With Equal Basic & Market Rents

Exhibit E-1b Owner Certification to MSHDA for Section 236 Decoupled Developments With IRP Value

Exhibit E-2 Owner Utility Certification to MSHDA for Section 8 Developments

Exhibit E-2a Owner Utility Certification to MSHDA for Section 8 Paid-Off Developments (except Section 8 Preservation Pass-Through developments)

Exhibit E-3 Owner Utility Certification to MSHDA for All MSHDA Programs Except Section 236 & Section 8 Developments

Exhibit E-4 Utility Allowance Calculation Form – Input Page

Exhibit E-5 Utility Allowance Calculation Form – Output Page

Exhibit E-6 Updated Gas and Electric Rate Information

Compliance with these procedures is required by the Premium Management Fee Guidelines.

If you have any questions or comments, please contact David Unkefer at (517) 373-6560.

EXAMPLE

UTILITY DATA RELEASE AUTHORIZATION

I, _____, a resident of a Michigan State Housing Development Authority-financed development, give my permission for the electric and/or gas company to release consumption data on my account to the _____ Management Company.

I understand that neither party will be charged for this information or service. This information is necessary in order for management to determine whether utility allowances deducted from rent are adequate.

Address:

Social Security Number:

Account Number:

Date:

Signature:

Insert:

Exhibit E-1 Section 236 Owner Certification

Exhibit E-1a Section 236 Decoupled Developments with Equal Basic & Market Rents Owner Cert.

Exhibit E-1b Section 236 Decoupled Developments with IRP Value

Exhibit E-2 Section 8 Owner Certification

Exhibit E-2a Section 8 Paid-Off Owner Certification

Exhibit E-3 Non-Section 236 & Section 8 Owner Certification

Exhibit E-4 Utility Allowance Calculation Form – Input Page

Exhibit E-5 Utility Allowance Calculation Form – Output Page

2007 UTILITY ALLOWANCE CALCULATION FORM

Instructions

The Microsoft Excel 2000 template program is designed to calculate utility allowances that are submitted with your annual budget. When opening your template, you must enable the macros designed into the spreadsheet. **COPY the template to your hard drive for your use.**

(For ease of use you may wish to print instruction sheet before proceeding)

Instructions for Use:

At the bottom of your screen will appear tabs corresponding to the following (use the arrow tab set at the bottom left to bring tabs into view):

1. Instructions;
2. Input Data;
3. Output Data;
4. Section 236 Owner's Certification;
5. Section 236 Decoupled Developments with Equal Basic & Market Rents Owner's Certification;
6. Section 236 Decoupled Developments with IRP Value Owner's Certification;
7. Section 8 Owner's Certification;
8. Section 8 Owner's Certification Paid-Off Developments;
9. MSHDA Developments (Non-236 and Non-Section 8) Owner's Certification;
10. 236 Rent Schedule;
11. 236/Moderate Rent Schedule;
12. 236 Decoupled Rent Schedule with Equal Basic & Market Rents;
13. 236 Decoupled Rent Schedule with IRP Value;
14. Section 8 Rent Schedule;
15. Section 8/Moderate Rent Schedule;
16. MSHDA Programs Rent Schedule; and
17. Section 8 Rent Schedule Paid-Off Developments

1. Input Page:

- a. Provide the development name, MSHDA #, management company name and name of the electric and gas companies that provide utilities to the development. Place your cursor in the "Budget Year" input field. Use the "pick arrow" to the right and choose the appropriate year. **You must complete this step for all other documents to register the correct year.** You may "tab" between entry fields or place your cursor in the appropriate cell **(input entry cells are shaded in yellow).**
- b. Using the updated electrical and gas rate information included in the current year's budget package, fill in the appropriate rates that pertain to the development. Include all service charges, if appropriate. If the utility company servicing the development is not included in the schedule, you must obtain this information directly from the utility company.
- c. By selecting the "pick arrow" that appears in the Detroit City User's Tax field, indicate (yes/no) if the development is within the Detroit city limits. **You must choose one for accurate calculation.**
- d. By selecting the "pick arrow" that appears in the Development Program field, choose the appropriate program. **You must indicate a program to generate the appropriate certification and rent schedule.**

- e. **ELECTRIC:** In table "A. 25% Sampling for each BR size", enter the total number of units for each unit type where a resident receives a utility allowance. The program will automatically calculate 25%, giving you a number for your sampling. You must analyze a minimum of five (5) units of each unit type unless there are less than five units of a particular type. In that situation, all of the units of that unit type must be included in the sample. You may use a sampling in excess of 25%; however, this figure must be hand entered. Add the consumption data from the 25% sampling for each bedroom size to determine the average KWH usage. Enter the Total KWH per 12 Months for each unit type.
- f. One (1) high and one (1) low KWH usage units may be deleted from each of the unit types recorded in Step "e". In table "B - Adjusted (Net) Sampling for each BR Size", enter the net amounts for the units remaining in the sample. **If a 25% sampling in a given unit type is less than 5 units, you must use a minimum of 5 units. The net number of units sampled may not be less than three (3). Example: 5 units - (1 low KWH usage + 1 high KWH usage) = 3 sampled units.**

If there are 4 or less units of a particular type, all of the units are to be used in the calculation.

- g. **GAS:** In table "C - 25% Sampling for each BR Size", enter the total number of units for each unit type where a resident receives a utility allowance. The program will automatically calculate 25%, giving you a number for your sampling. You must analyze a minimum of five units of each unit type unless there are less than five units of a particular type. In that situation, all of the units of that unit type must be included in the sample. You may use a sampling in excess of 25%; however this figure must be hand entered. Add the consumption data from the 25% sampling for each bedroom size to determine the average CCF usage. Enter the **Total CCF per 12 Months** for each unit type.
- h. One (1) high and one (1) low KWH usage units may be deleted from each of the unit types recorded in Step "g". In table "D. Adjusted (Net) Sampling for each BR Size," enter the net amounts for the units remaining in the sample. If a 25% sampling in a given unit type is less than 5 units, you must use a minimum of 5 units. **The net number of units sampled may not be less than three (3). Example: 5 units - (1 low KWH usage + 1 high KWH usage) = 3 sampled units.**

If there are 4 or less units of a particular type, all of the units are to be used in the calculation.

2. Output Page:

- a. Enter the current utility allowance for each unit type. The proposed utility allowance will be calculated automatically.

3. Owner Certification:

- a. Choose the appropriate program certification and provide the required information (input entry cells are shaded in yellow).

NOTE: If your development is a combination 236/Moderate, you must complete the 236 Owner Certification for the 236 units. In a like manner, if your development is a combination Section 8/Moderate, you must complete the Section 8 Owner Certification for the Section 8 units.

- b. When you have completed the program certificate, choose the tab that corresponds to the appropriate rent schedule.

4. Rent Schedule:
 - a. Complete by entering data in the input fields (yellow shaded). **NOTE:** There are two tables to complete for 236/Moderate and Section8/Moderate developments, one for the Moderate units and one for the 236 or Section 8 respectively.
 - b. If the proposed rent exceeds the maximum allowable rent on the applicable rent schedules, the worksheet will not calculate the rent until it is at or below the maximum allowable rent.
 - c. The "Total Units" field on the rent schedules can be overridden, if necessary.
5. After checking for accuracy, print the **Input Sheet, Output Sheet, Owner Certification document and Rent Schedule**. When the Owner Certification has been properly signed, forward these documents with your budget submission.

M E M O R A N D U M

August 18, 2006

TO: Management Agents

FROM: David E. Unkefer

RE: Updated Electric & Gas Rates Through December 2007

ELECTRIC

Projected 2007 electric rate increases:

- 1) Family Rate 3 or more persons averaging 500 kwh/mo
- 2) Senior Rate 2 or less senior averaging 300 kwh/mo

	FAMILY	SENIOR
Consumers Energy Company	\$.0949/kwh	\$.0696/kwh

Detroit Edison	\$.1043/kwh	\$.0694/kwh
Detroit City Users Tax:	FAMILY	SENIOR
	\$.1095/kwh 5% included	\$.0729/kwh 5% included

American Electric Power	\$.0657/kwh	\$.0538/kwh*
St. Joseph-Jurisdiction	+\$5.55/mo. service charge	+\$5.55 /mo.service charge
Three Rivers-Jurisdiction	\$.0721/kwh +\$4.56/mo. service charge	No senior rate
Lansing Board of Water and Light	\$.066/kwh + \$4.45/mo. service charge	\$.048/kwh +\$4.45/mo. serv.ch.

Upper Peninsula Power Co.	\$.1377/kwh +\$5.63/mo. service charge	\$.1377/kwh +\$5.63/mo. service charge
Iron River District (Non-interconnected system)	\$.1020/kwh +\$4.46/mo. service charge	\$.1020/kwh +\$4.46/mo. service charge

Edison Sault Electric	\$.0753kwh +\$3.58/mo. service charge	\$.0753kwh +\$3.58/mo. service charge
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NATURAL GAS

Projected 2007 gas rate increases:

- 1) Commodity Charge - total charge per ccf
- 2) Monthly residential service charge - applicable to individually metered units.

	FAMILY	SENIOR
Consumers Energy Company		
Class I Residential Customer Service Charge (R.C.S.C.)	\$7.50 mo.	\$7.50 mo.
Commodity Charge	\$1.0077/ccf	\$1.0077/ccf

Michigan Consolidated Gas/DTE Energy		
Class I R.C.S.C.	\$8.50 mo.	\$8.50 mo.
Commodity Charge	\$1.02/ccf	\$.9079/ccf*

*Or may be on family rate & apply for \$12/unit credit for months of Dec.-Mar. Must be age 65 or more & head of household.

Detroit City Users Tax:	\$1.071/ccf	\$.9533/ccf
Additional 5% of Commodity charge (developments within the city limits)	5% included	5% included

SEMCO Energy (excluding Battle Creek)	
Class I R.C.S.C.	\$9.50 mo.
Commodity charge:	\$1.0723/ccf
WPS Michigan-Michigan Gas Utilities Corp.	
Class I R.C.S.C:	\$8.00 mo.
Commodity Charge:	\$1.1591/ccf
Citizens Gas Fuel Company	
Class I R.C.S.C:	\$9.75 mo.
Commodity Charge:	\$1.197/ccf
Battle Creek Division of SEMCO	
Class I R.C.S.C:	\$11.00 mo.
Commodity Charge:	\$1.1139/ccf

For developments not lying under the jurisdiction of one of these major companies, the individual city offices should be contacted and inquiries made regarding rate projections.

EXHIBIT F

MICHIGAN DEPARTMENT OF LABOR & ECONOMIC GROWTH

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

**735 E. Michigan Avenue, P.O. Box 30044
Lansing, Michigan 48909**

IDENTITY OF INTEREST DISCLOSURE

DEVELOPMENT NAME:_____ **MSHDA #:**_____

___ ***NO**, We are not using and do not intend to use an Identity of Interest vendor as defined by the Authority's General Rules. If at anytime in the future we contract to do business with an Identity of Interest vendor, an Identity of Interest Disclosure will be submitted to the Authority for prior approval.

OWNER: _____ **AGENT:** _____

BY: _____ **BY:** _____

ITS: _____ **ITS:** _____

DATE: _____ **DATE:** _____

*Sign and return only page I of this form to the Authority.

___ **YES**, an identity of interest, as defined by the Authority's General Rules, exists at the above-captioned development. During the budget year _____ until _____, the following contractor/supplier will be used: (complete entire form.)

VENDOR NAME: _____
(Submit a separate form for each Identity of Interest vendor)

DETAILED DESCRIPTION OF GOODS AND SERVICES TO BE PROVIDED: _____

CONTRACT AMOUNT: _____

VENDOR DISCLOSURES (Complete applicable category):

SOLE PROPRIETORSHIP--List of All Owners or Managers of the Vendor:

COPARTNERSHIPS OR LIMITED PARTNERSHIPS--List of all Copartners or General Partners of the Vendor:

JOINT VENTURES--List of all joint venturers of the Vendor:

CORPORATIONS--List of all directors, officers and shareholders of the Vendor:

List of all individuals involved with owner and/or agent with whom there is an Identity of Interest and a complete description of the Identity of Interest:

List of Individuals

Description of Identity
of Interest

FEDERAL TAX I.D. # OF THE VENDOR: _____

LOCATION(S) OF THE VENDOR'S OFFICE: _____

LIST ALL MONTHLY INCOME & EXPENDITURE REPORT LINE ITEM NUMBERS WHERE THESE EXPENDITURES WILL BE SHOWN:

ATTACHMENTS--The following items should be attached to this Disclosure:

- A copy of the contractor/suppliers organizational documents.
- At least three (3) bids for contracted goods and services to be provided by the Identity of Interest vendor.

It is understood that Authority staff has the right at any time to audit the books of the contractor/supplier. **FURTHERMORE, IT IS UNDERSTOOD THAT THE IDENTITY OF INTEREST VENDOR WILL NOT BE USED UNTIL THE PROPOSED VENDOR AND CONTRACT AMOUNT HAVE BEEN APPROVED BY THE AUTHORITY.**

Furthermore, it is also understood that if goods or services not listed above will be purchased from the Identity of Interest vendor or if the contract price increases beyond the prices previously approved by the Authority, a new Disclosure will be submitted to the Authority for prior approval.

I/We certify that I/we have read the Michigan State Housing Development Authority Rules regarding the use of Identity of Interest Vendors and agree to abide by the terms and conditions required by this rule.

SIGNATURES:

OWNER: _____	AGENT: _____
BY: _____	BY: _____
ITS: _____	ITS: _____
DATE: _____	DATE: _____

VENDOR:_____ **DATE:**_____

MSHDA APPROVAL:

_____ DIRECTOR, OFFICE OF ASSET MANAGEMENT	_____ DATE
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PART 10. IDENTITY OF INTEREST WITH VENDORS TO AUTHORITY-FINANCED DEVELOPMENTS

R 125.201 Applicability

Rule 201. The rules contained in this part shall apply to all transactions that involve the supply of goods and services to authority-financed housing developments between the owners or the management agents of the developments and vendors who supply goods or services to those developments.

R 125.202 Identity of interest; "member of the family" defined.

Rule 202. (1) Any contractual relationship between either an owner or management agent and a vendor described in subrule (2) of this rule shall constitute an identity of interest.

(2) An identity of interest shall exist if any of the following conditions occurs:

(a) Either the owner or management agent, or any officer, director, stockholder, partner, or joint venturer of either the owner or management agent, has a financial interest in the vendor.

(b) Either the owner or management agent, or any officer, director, stockholder, partner, or joint venturer of either the owner or management agent, is also an officer, director, stockholder, partner, or joint venturer of the vendor.

(c) Either the owner or management agent, or any officer, director, stockholder, partner, or joint venturer of either the owner or management agent, is also the vendor.

(d) A member of the family of either the owner or management agent, or of any officer, director, stockholder, partner, or joint venturer of either the owner or management agent, is the vendor or an officer, director, stockholder, partner, or joint venturer of the vendor or has a financial interest in the vendor. For purposes of this part, "member of the family" means any person who is related to the party in question by blood, marriage, or operation of law.

R 125.203 Requirements for conducting business with identity of interest vendors.

Rule 203. Owners and management agents shall conform to all of the following requirements when conducting business with vendors with whom there is an identity of interest:

(a) Both the owner and management agent shall inform the authority division of management and reinvestment of any proposed vendor with whom there is an identity of interest. Such notification shall be submitted concurrent with submission of the development operating budget, but at least once per year.

(b) The owner and management agent shall submit a certified disclosure for each proposed vendor with whom there is an identity of interest which lists the names of all of the following persons:

(i) All owners and managers of vendors that are sole proprietorships.

(ii) All copartners or general partners of vendors that are copartnerships or limited partnerships.

(iii) All joint venturers of vendors that are joint ventures.

(iv) All directors, officers, and shareholders of vendors that are corporations.

(c) The certified disclosure shall list, for each person described in subdivision (b) of this rule the names of the individuals involved with the owner or management agent with whom

there is an identity of interest and the extent or degree of such identity of interest. The certified disclosure shall also contain other information as the authority shall require, such as the following:

- (i) Federal tax identification number of all vendors with whom there is identity of interest.
- (ii) The location of all offices that contain business records of the vendors with whom there is an identity of interest.
- (iii) The names and addresses of the bookkeepers and accountants of the vendors with whom there is an identity of interest.
- (d) The certified disclosure shall be submitted on such form as shall be designated by the authority and shall be submitted together with the submission described in subdivision (a) of this rule, or if the proposed vendor is not listed on such submission, at the time the owner or management agent requests approval to contract with a proposed vendor with whom there is an identity of interest.
- (e) The owner and management agent shall submit, together with its certified disclosure, a copy of the organizational documents for each proposed vendor with whom an identity of interest is shared.
- (f) The authority shall have the right to audit the books of the vendor with whom there is an identity of interest to determine whether amounts paid to identity of interest vendors were reasonable and whether there has been compliance with applicable restrictions on return. The owner, management agent, and proposed vendor shall acknowledge the authority's right to conduct such an audit in the certified disclosure.
- (g) Both the owner and management agent shall submit, to the authority, a request for approval to use a proposed vendor with whom there is an identity of interest. Neither the owner nor management agent shall contract for goods or services from any vendor with whom there is an identity of interest until the proposed vendor and contract amount is approved by the Authority. If an owner or management agent enters a contract for goods or services beyond the goods or services previously approved by the authority, or if the contract price increases beyond the prices previously approved by the authority, then an additional approval shall be obtained.
- (h) The authority may, upon a request from the owner or management agent and after review of the disclosure required pursuant to the provisions of subdivisions (b) to (f) of this rule, determine that the identity of interest between the owner and agent is insignificant. If such a determination is made, the owner and management agent need not comply with the provisions of subdivision (i) of this rule.
- (i) Unless compliance with this subdivision is excused pursuant to the provisions of subdivision (h) of this rule, all requests for approval of proposed vendors shall be accompanied by a detailed explanation of the goods or services to be provided by the proposed vendor and not less than 3 bids for such goods and services. The 3 bids shall include a bid from the vendor with whom there is an identity of interest.
- (j) Requests for approval of a proposed vendor shall be submitted concurrent with the submission of the development operating budget and any other time that the owner or management agent wishes to contract with a vendor with whom there is an identity of interest. However, a proposed vendor and contract amount need be approved only one time per operating year per development, unless the vendor supplies goods or services beyond the

goods or services previously approved by the authority or the contract price increases beyond the prices previously approved by the authority.

R 125.204 Sanctions; "excessive costs" defined.

Rule 204. (1) If an owner or management agent is found to be in violation of these rules concerning identity of interest, the authority, or the officers or employees to whom it shall delegate authority, may impose the following sanctions in addition to any other remedies available through contractual documents or at law or equity:

(a) On the first occurrence of a violation, either or both of the following sanctions may be imposed:
(i) The owner or management agent may be required to reimburse the development operating account for all excessive costs, as determined by the authority, incurred as a result of the contract with the vendor with whom there is an identity of interest.

(ii) The owner and management agent found to be in violation may be prohibited from using any vendor with whom there is an identity of interest for a period of 1 year.

(b) For each violation after the first, the following sanctions may be imposed, as applicable:

(i) The owner or management agent may be required to reimburse the development operating account for all excessive costs, as determined by the authority, incurred as a result of the contract with the vendor with whom there is an identity of interest.

(ii) If the violation involves a vendor who has an identity of interest with the management agent, then either or both of the following sanctions may be imposed:

(A) The management agent's management agreement may be terminated and a new management agent shall be hired.

(B) The vendor who shares the identity of interest with the management agent may be barred from doing business with other authority-financed developments managed by the same management agent.

(iii) If the violation involves a vendor who has an identity of interest with the owner, then the owner and its management agent may be prohibited from doing business with the particular vendor at the development in question for a period of 5 years.

(2) As used in this rule, the term "excessive costs" means all costs which would not have been incurred by the development if the owner or management agent, or both, had exercised reasonable business judgment and obtained only those goods and services reasonably necessary for operation of the development at competitive prices.

EXHIBIT G

http://www.hudclips.org/sub_nonhud/html/pdfforms/92547-a.pdf

Budget Worksheet HUD-92547-A (Replaces Statement of Profit and Loss HUD-92410)

**OWNER CERTIFICATION TO MSHDA
OF PURCHASING PRACTICES AND
REASONABLENESS OF EXPENSES**

MSHDA #: _____ **DEVELOPMENT NAME:** _____
HUD PROJECT #: _____
LOCATION: _____

Acting on behalf of, _____, the Project Owner, I certify that ALL of the following statements are true.

1. The project is obtaining utilities at the lowest rates available.
2. The project has received or requested any tax relief for which it is eligible and management has analyzed the project's property tax bills and appealed any assessments which appeared unreasonable.
3. Amounts paid to individuals or companies having an identity-of-interest with the owner or the management agent were not in excess of the costs that would have been incurred in making arms-length purchases on the open market.
4. Management has exerted reasonable effort to take advantage of discounts and has credited the project with all discounts, rebates or commissions received with respect to purchases, service contracts and other transactions made on behalf of the project.
5. Management has obtained contracts, materials, supplies and services, including the preparation of the annual audit, on terms most advantageous to the project and at costs not in excess of amounts ordinarily paid for comparable contracts, materials, supplies and services in the area in which such services, supplies, or materials are furnished.
6. Management has solicited verbal or written cost estimates, as necessary to comply with the Paragraphs 3 through 5 above. Management has documented the reasons for accepting other than the lowest bid and will make the documentation available to MSHDA, upon request.

WARNING:

- 18 U.S.C. 1001 provides, among other things, that whoever knowingly and willingly makes or uses a document or writing containing any false, fictitious, or fraudulent statement or entry, in any matter within the jurisdiction of any department or agency of the United States, shall be fined not more than \$10,000 or imprisoned for not more than 5 years, or both.
- 12 U.S.C. 1715z-4 provides in part: "Whoever, as an owner of a property which is security for a mortgage (covering multifamily housing, as defined in the regulations of the Secretary) or as a stockholder beneficial owner ... trust ... or as an officer, director or agent of any such owner (1) willfully uses or authorizes use of any part of the rents or other funds derived from the property covered by such mortgage in violation of a regulation ... (2) willfully and knowingly uses or authorizes the use, while such mortgage is in default, or any part of the rents or expense ... shall be fined not more than \$5,000 or imprisoned not more than 3 years or both.

Signed by:

Name

Title

Signature

Date

Insert Rent Schedules (Exhibits I-1 thru I-8)